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TO RUEHC/SECSTATE WASHDC 7172
INFO RUCNCIS/CIS COLLECTIVE
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RHEFDIA/DIA WASHINGTON DC//DHO-2/REA/NMJIC-J2//
RHMFIUU/CDR USCENTCOM MACDILL AFB FL//CCJ5-E//
RUEKJCS/JOINT STAFF WASHINGTON DC//J5/RUE//
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEHBS/USEU BRUSSELS
RUEHVEN/USMISSION USOSCE 1619
RUCNDT/USMISSION USUN NEW YORK 0339
RUEHGV/USMISSION GENEVA 1158

UNCLAS SECTION 01 OF 02 ASHGABAT 000366

SIPDIS

SENSITIVE

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STATE FOR SCA/CEN (PERRY)

E.O. 12958: N/A

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SUBJECT: NIYAZOV CENTRALIZES CONTROL OVER OIL AND GAS
SECTOR: TAKE 2

Ref: A) 05 Ashgabat 922

B) 05 Ashgabat 1013

C) 05 Ashgabat 1022

Summary

11. (SBU) In mid-December 2005, President Niyazov announced a reorganization of Turkmenistan's oil and gas sector, stripping operational freedom from state petroleum enterprises. The restructuring centralizes the president's control over the Oil and Gas Industry and Mineral Resources Ministry (OGIMRM). However, it also destroys existing marketing networks and potentially creates increased uncertainty about existing oil and gas arrangements with foreign companies. End Summary.

Reorganization Leaves OGIMRM on Top

12. (U) On December 15, 2005 President Niyazov announced further reorganization of Turkmenistan's oil and gas sectors intended to create "subordination from top to bottom, starting from the state down to the local oil and gas production enterprises." Under the new structure, OGIMRM will oversee and coordinate all state oil and gas enterprises. The Chairmen of Turkmennebit (Turkmen Oil), Turkmengaz (Turkmen Gas) and Turkmengeologiya (Turkmen Geology) became OGIMRM deputy ministers.

13. (U) The Turkmen Oil and Gas Trading Corporation (Turkmennebitgaz) was dissolved as part of the reorganization. Turkmennebitgaz was responsible for the entire downstream oil and gas sector, including oil and gas transportation systems, hydrocarbon refining, and domestic and foreign sale of oil, petrochemicals, and natural gas. OGIMRM assumed direct control over domestic fuel distribution and petroleum-related research and development. Turkmengaz took over responsibility for the export of natural gas and liquefied natural gas production and storage/offloading facilities. Meanwhile, Niyazov transferred all deep-exploration drilling activities, which are now authorized by the Cabinet of

Ministers, to Turkmengeologiya. Ultimately, approximately 800 Turkmennebit employees will be laid off as a result of the restructuring.

Refineries Merged

¶4. (U) In September 2005, Niyazov transferred responsibility for oil refining to OGIMRM (Ref C). The December reorganization merged the Turkmenbashy and Seydy oil refineries under the management of the Turkmenbashy refinery. Niyazov also ordered the Turkmenbashy refinery to establish an organization for the export and marketing of petroleum products. Under the new structure, the Turkmenbashy Refinery will buy oil directly from Turkmennebit and sell refined petroleum products on the State Commodity and Raw Materials Exchange. The refinery will be responsible for offsetting OGIMRM financial losses as the result of subsidized gasoline sales.

Turkmenbashy Approves All Deals

¶5. (U) Not surprisingly, Niyazov will continue to personally approve all oil and gas deals, in the first place by naming everything after himself. Under GOTX law, the Competent Body for the Use of Hydrocarbon Resources and Oil Operations is the sole organization responsible for petroleum licensing and the signing of product sharing agreements. Prior to the reorganization's announcement, Niyazov suggested that the Competent Body become an expert panel consisting of top oil and gas officials. While it will "discuss" gas sales, a presidential decree will be required to hold

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negotiations or sign agreements with foreign companies.

Comment

¶6. (SBU) The December restructuring follows a series of investigations against key officials on charges of corruption in the oil and gas industries. In reality, Niyazov centralized all hydrocarbon revenues under his control. This move is unlikely to reassure foreign investors and threatens to destroy existing marketing and sales networks. End Comment.

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